



Testimony of Bruce W. Carlson on Senate Bill 28

March 13, 2014

Senator John Fonfara and Representative Patricia Widlitz
Co-Chairs, Finance, Revenue and Bonding Committee
Room 3700, Legislative Office Building
Hartford, CT 06106

Dear Senator Fonfara, Representative Widlitz and Members of Finance, Revenue and Bonding Committee,

I am the Acting President and CEO of the CT Technology Council and the President of the IP Factory, a Connecticut non-stock corporation. I am here today to offer my strong support to the replenishment of the Angel Investment Tax Credit by the \$3 million proposed by Governor Malloy. However, I am strongly opposed to the language in Sec. 7 of Senate Bill 28 which establishes a recapture provision for this tax credit. This provision is both mis-guided and short sighted.

In short the recapture provision requires that an Angel Investor return some or all of the tax credit (depending on the timing) if a company that has received the investment:

- Closes
- Is sold
- Moves out of state
- Drops below the 75% threshold of its employees being State residents.

Most Angel Investors are savvy investors who understand that their investment is highly risky and they are able to determine that risk through appropriate due diligence. What this recapture provision does is add uncertainty to the risk because the investor has no control over any of the above circumstances taking place. This uncertainty will force the investors to look elsewhere to make their investments.

I believe I am uniquely qualified to speak to this issue. The CTC serves as the administrative arm of the Crossroads Venture Group, the statewide venture capital association, and the Angel Investment Forum. I have reached out to both of these groups and am submitting along with my testimony, letters from each of these entities also opposing Section 7 of SB 28. As the President of the IP Factory, we are creating new technology companies from technology projects that have been put on hold in Connecticut's corporations. I have just finished seeking and finalizing commitments of angel financing for one of our companies.

The recapture provision is misguided because it is lifted almost verbatim from Maryland's Biotechnology Investment Incentive Tax Credit statute. That statute authorizes a 50% tax credit to any person or corporation that invests in early stage biotechnology companies in Maryland. It has an **annual** limit of \$250,000 investment per entity. If in any year the tax credit exceeds the taxes owed by that person or corporation, they are eligible for a tax refund from the State. And to be an eligible company for the investment, the company has to have **1** employee in Maryland. Let's contrast that to

Connecticut's program. We have a 25% tax credit for individual investors only, with a \$250,000 limit on total investment **ever** by any individual. The company receiving the investment needs to be certified by CT Innovations and must have 75% of its workforce in CT. Yes, on the face of it, they are both Investment Tax Credit programs, but when you look beneath the surface one realizes that we are comparing apples and oranges. One might be able to understand why given the size of the potential exposure to Maryland for companies which are required to have only 1 employee in the State, there is room for abuse. You have created a much different program in CT and where these concerns do not exist. In effect, the provision is designed to solve a problem that will not happen.

So, why be concerned? We are concerned about the unintended consequences, which are very real. The recapture provision is short sighted because it takes a program, the Angel Investment Tax Credit that is just beginning to get its legs, and throws a wet blanket on it. In the last two years, since you changed the minimum amount invested to be eligible from \$100,000 to \$25,000 the number of angels investing in CT has quadrupled, while the amount of the investment has risen by 250 percent. Why is this important? Angels are the bridge between when your mortgage and your family and friends are maxed out and lowest rung on the financing ladder, seed stage money. No one, and I mean no one, is providing financing in Connecticut for that stage company. Luckily, with CI's Pre-Seed program, we can begin to see a blend of the angels and CI investment, but without the angels i.e. private dollars, CI won't invest. I will argue that although helpful in bringing new angels into the market, most of these CT based angels were already here, but investing in New York, Boston and other places. The tax credit has not only kept that money in Connecticut, but we have also begun to see CT angels syndicate deals to angel groups outside CT thereby importing investment in CT companies.

When as a state, we are 50th in new business start ups and are just beginning to get traction with an investment tool that will help move that needle off of empty, why are we going to introduce uncertainty into the process as the recapture provision does. Nationally, 70% of start ups fail, 50% if they have been nurtured in an incubator. The current mantra among entrepreneurs and their advisors is fail fast. This flies in the face of this recapture provision. If a company fails within three years of the tax credit being granted, the angel must return some or all the credit. We are punishing the risk takers. As I mentioned before, money is not bounded by state lines. If we make it risky to invest in Connecticut, that money will simply go elsewhere.

And finally, in many cases, angel investors are people that have been successful in a particular field. They tend to like to invest in that field and will offer their services as mentors to the entrepreneurs trying to get the company off the ground. So not only will this recapture provision dry up the only capital available at a critical stage of a company's life, it will deprive that company of some very real talent.

For these reasons, I urge this Committee to strike Section 7 from SB 28.

Sincerely,

Bruce Carlson
Acting President & CEO
Connecticut Technology Council
bcarlson@ct.org
www.ct.org

The Connecticut Technology Council
222 Pitkin Street, Suite 113 ♦ East Hartford, CT 06108
860-289-0878 ♦ 860-289-0326 Fax